



**THE PORT  
OF LOS ANGELES**  
Executive Director's  
Report to the

Board of Harbor Commissioners

**DATE: FEBRUARY 22, 2011**

**FROM: FINANCE DIVISION**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ TO APPROVE THE TRANSFER OF \$10 MILLION FROM THE HARBOR REVENUE FUND TO THE EMERGENCY FUND AND TO RENAME THE FUND "EMERGENCY/ACTA RESERVE FUND"**

**SUMMARY:**

Staff recommends that the Los Angeles Board of Harbor Commissioners (Board) approve the transfer of \$10 million from the Harbor Revenue Fund (Fund 702) to Emergency Fund (Fund 751) of the City of Los Angeles, Harbor Department (Harbor Department) and to rename Fund 751 to "Emergency/ACTA Reserve Fund" from Emergency Fund. The transfer will increase the Emergency Fund level to \$47 million from the current balance of \$37 million, thereby replenishing the Emergency Fund to meet unexpected funding needs, including the covering of a shortfall likely to be experienced by the Alameda Corridor Transportation Authority (ACTA). Both the Harbor Revenue Fund and the Emergency Fund are components of the Harbor Department's Unrestricted Funds and remain under the Harbor Department's control.

**RECOMMENDATION:**

It is recommended that the Los Angeles Board of Harbor Commissioners:

1. Authorize the transfer of \$10 million from Harbor Revenue Funds to the Emergency Fund, in order to cover any shortfall experienced by the Alameda Corridor Transportation Authority (ACTA);
2. Approve the name change from "Emergency Fund" to "Emergency/ACTA Reserve Fund"; and
3. Adopt Resolution No. \_\_\_\_\_.

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**DISCUSSION:**

Background – The transfer of funds is being recommended in order to begin to rebuild the balance in the Emergency Fund closer to levels of the recent past. By doing so, the Harbor Department will strengthen and rebuild a very visible component of its financial condition that is receiving greater amounts of attention in the investor community. With the changes in the bond insurance market over the last two years, the level of focus by bond purchasers and holders, rating agencies, and underwriters on the financial strength of a borrower has intensified. These members of the financial community continue to increase their level of scrutiny of enterprises such as the Harbor Department, with financial reserves generally used as a key performance indicator.

History of the Emergency Fund – The Emergency Fund was originally established as the "Earthquake Fund" per Resolution No. 4996, which was adopted on July 29, 1987 and intended as a self-insurance fund for potential losses due to catastrophic occurrences. The initial deposit into this fund was \$12.3 million on April 6, 1988. On February 28, 1996, the name of fund was changed to "Emergency Fund" per Board Resolution No. 5553. The purpose of the fund was expanded to include reimbursement of operation and maintenance expenses, debt service, capital development, or other urgent needs.

Emergency Fund and Special Operating Fund Balances – With additional contributions and interest earnings, by June 30, 2008 the balance in the Emergency Fund stood at \$96.8 million. In September 2008, the rating downgrade of MBIA, Inc., a bond insurance company for one of the Harbor Department's bond obligations, required that the Harbor Department set aside its annual debt service payment in cash in the amount of \$61.5 million. As a result, \$61.5 million was moved out of the Emergency Fund and placed with the Harbor Department's trustee bank to meet the debt service reserve obligation outlined under the Harbor Department's bond indenture. Because of this action, the remaining balance in the Emergency Fund stood at approximately \$35.3 million.

On April 16, 2009, the Board adopted Resolution No. 09-6712 that established the minimum combined cash balance in the Harbor Department's Emergency Fund and Strategic Operating Fund to equal \$235 million. The balance in the Emergency Fund at that time was approximately \$36 million, which together with \$199 million in the Strategic Operating Fund, totaled \$235 million. The balance of \$235 million approximated the previous two-year's average annual operating expenses for the Harbor Department. The average annual operating expense for fiscal year 2008-2009 and fiscal year 2009-2010 was \$232 million. The purpose in setting aside this level of

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reserve was to ensure that the Harbor Department, in the midst of an economic downturn with trade outlook weak, would have sufficient funds available to meet its on-going financial obligations. The figure of one year's average operating expenses was chosen to mirror the benchmark of "days cash on hand" used by the investor community to determine an entity's ability to weather a downturn. Holding a cash position equal to one year's operating expenses, then, signals "365 days cash on hand," a frequently used guidepost to indicate a strong financial condition.

Financial Policies and Minimum Reserves – On April 15, 2010, the Board amended certain portions of the Harbor Department's Financial Policies (Policies), and adopted Resolution No. 10-6925 affirming the minimum balance in the Emergency Fund at \$36 million. Furthermore, Resolution No. 10-6925 renamed the Strategic Operating Fund to the Special Operating Fund and further affirmed the minimum reserve, which then stood at \$235 million. The Policies specify that the Emergency Fund hold monies for unanticipated expenditures, disaster-related recovery, and revenue shortfalls. The balance in the Emergency Fund will be subject to periodic review. Any contribution to or use of the money in either the Emergency Fund or the Special Operating Fund requires Board approval.

The Emergency (751), Special Operating (74J), and Harbor Revenue (702) Funds make up the "Unrestricted cash and investments" account as listed in the Current Assets of the Harbor Department's balance sheet. These accounts form the core source of the Harbor Department's operating and capital funding. While funds within the Harbor Revenue Fund (702) may be used to meet on-going capital needs, the other funds require Board action for their use. The total of these accounts at January 31, 2011 was \$343.7 million. Each of these funds remains under the control of the Harbor Department and is a part of its Unrestricted Funds.

The balance in the Emergency Fund as of January 31, 2011 was \$37.3 million. If the proposed \$10 million transfer takes place, the total monies in the Emergency Fund will increase to approximately \$47 million.

ACTA Shortfall – As of January 31, 2011, ACTA's unaudited financial statement showed about \$1.7 billion in revenue bonds payable. This debt was incurred in conjunction with the acquisition and construction of the Alameda Corridor, which is a 20-mile long, signalized three-track toll-way for trains connecting the San Pedro Bay ports to the railroads.

On August 11, 2010, ACTA informed the Harbor Department and the Port of Long Beach (POLB) that no Shortfall Advance would be required for ACTA debt service payments, which are due on October 1, 2010. However, this letter goes on to state that

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beginning with October 1, 2011, "it is quite likely that Shortfall Advances will be required for a period of time." The amount and duration of Shortfall Advances beyond October 1, 2011 is largely dependent on future San Pedro Bay cargo volumes and the mix of local versus discretionary cargo.

Projections indicate that the Harbor Department may have to advance to ACTA as much as \$9.7 million on that date. This amount represents the Harbor Department's portion of the current payment of \$19.4 million, with POLB paying an equal amount of \$9.7 million.

According to ACTA's projections, subsequent payments through the year 2019 would total about \$69 million for both ports (with each port paying an estimated additional \$35 million). The total payments to ACTA is expected to be about \$88 million with the contribution from each port estimated to be slightly over \$44 million, including the current year's expected obligation.

The currently proposed \$10 million transfer would be consistent with Board Resolution No. 09-6712 that specified periodic review of the need for such contributions to the Emergency Fund. In addition, this transfer, as well as changing the Emergency Fund's name to Emergency/ACTA Reserve Fund, will lay the groundwork for covering a shortfall in October 2011 and possibly into the future.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is to transfer \$10 million from the Harbor Department's Harbor Revenue Fund to the Harbor Department's Emergency Fund. As an administrative action, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA guidelines.

**ECONOMIC BENEFITS:**

This Board action will have no direct job impact in the five-county region.

**FINANCIAL IMPACT:**

If \$10 million is transferred from the Harbor Revenue Fund to the Emergency Fund, there is no net effect to the bottom line of the income statement, the Harbor

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Department's Statements of Revenues and Expenses. However, the transfer will take money out of the Harbor Revenue Fund, which is the repository for funds used for capital improvement projects and the on-going operating needs of the Harbor Department. With the current level of revenue generation and expense control, it is not expected that such a transfer will materially affect the ability of the Harbor Department to fund its anticipated capital projects, meet its operating needs or negatively affect its borrowing capacity in the short term.

On January 31, 2011, the balance in the Harbor Revenue Fund was \$107.5 million. With the proposed transfer of \$10 million, it is anticipated that the Harbor Revenue Fund will stand at approximately \$132 million at the end of June 2011, as current operations will generate more than sufficient funds to support the transfer.

**CITY ATTORNEY:**

The Office of the City Attorney has reviewed this Board Report and the proposed action raises no legal issues at this time.

**TRANSMITTALS:**

None.

FIS Approval: KR (initials)

  
KARL K. Y. PAN  
Chief Financial Officer

  
MOLLY CAMPBELL  
Deputy Executive Director

APPROVED:

  
GERALDINE KNATZ, Ph.D.  
Executive Director